

Bank of China

Bloomberg: 3988 HK EQUITY | 601988 CH Equity | Reuters: 3988.HK | 601988.SS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 May 2022

H: BUY (Reinstating coverage)

Last Traded Price (H) (19 May 2022): HK\$3.02 (HSI : 20,121)

Price Target 12-mth (H): HK\$3.85 (27.5% upside)

A: HOLD (Reinstating coverage)

Last Traded Price (A) (19 May 2022): RMB3.18 (CSI300 Index : 4,000)

Price Target 12-mth (A): RMB3.40 (6.9% upside)

Analyst

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What's New

- BOC benefits from US rate hike; has the largest FX loan exposure among major China banks
- NPL ratio down by 13bps y-o-y to 1.33% in FY21 and 1.31% in 1Q22 despite high exposure to risky sectors
- Steady growth in fee income, with advantages in its open platform and cross-border products
- Reinstate BUY with TP of HK\$ 3.85

Benefit from FX exposure

Investment Thesis

Largest FX loan exposure. BOC has the largest FX loan and fee income exposure to trade finance among the major China banks. It had 17% of total loans from overseas by the end of FY21 and could benefit more from the upward cycle of the US's interest rate.

Improving asset quality. Among the banks we cover, BOC has the highest loan exposure to risky sectors. Even so, it dropped NPL ratio at 1.33% in FY21, down 13bps y-o-y. 1Q22 NPL was stable at 1.31%.

Steady fee income growth outlook. Despite of a drop in fee income in 1Q22 due to market volatility, we expect fee income to back to the growth track in 2H22. BOC's main competitive advantages in wealth management are i) open WM platform and ii) cross-border and forex products.

Valuation:

We reinstate coverage on BOC with BUY TP at HK\$3.85, based on DDM, assuming 13.2% cost of equity, 7.5% ROE, and 3.5% terminal growth. The TP implies 0.5x FY22F P/BV, on par with its five-year average.

Where we differ:

We expect a steady c.2-6% y-o-y growth in its fee income in FY22-24F, given that i) BOC has the largest FX loan exposure among major China banks alongside a relatively stable fee income from FX settlement and credit guarantee which are related to trade finance and ii) BOC is proactively exploring WM business and showing the highest AUM and client number growth among the Big Four.

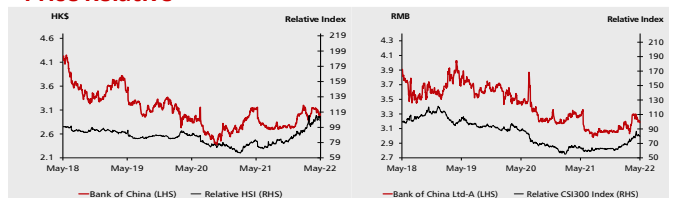
Key Risks to Our View:

Deteriorating asset quality and substantial slowdown in China's foreign trade.

At A Glance

Issued Capital - H shares (m shs)	83,622
- Non H shrs (m shs)	210,766
H shs as a % of Total	28
Total Mkt Cap (HK\$m/US\$m)	1,036,127 / 132,031
Major Shareholders (%)	
Central Huijin Investment Ltd.	89.4
Major H Shareholders (As % of H shares)	
National Social Security Fund	6.0
H Shares-Free Float (%)	94.0
3m Avg. Daily Val. (US\$m)	117.92
GICS Industry: Financials / Banks	

Price Relative



Forecasts and Valuation (H Shares)

FY Dec. (RMB m)	2021A	2022F	2023F	2024F
Pre-prov. Profit	379,362	407,393	436,459	467,661
Pre-prov. Profit Gth (%)	4	7	7	7
Pretax Profit	276,620	285,371	298,560	312,385
Net Profit	205,908	212,759	223,085	233,908
EPS (RMB)	0.70	0.72	0.76	0.79
EPS (HK\$)	0.84	0.87	0.91	0.95
EPS Gth (%)	14	3	5	5
PE (X)	3.6	3.5	3.3	3.2
DPS (HK\$)	0.27	0.27	0.29	0.30
Div Yield (%)	8.8	9.1	9.5	9.9
BV Per Share (HK\$)	7.77	8.34	8.96	9.62
P/Book Value (x)	0.4	0.4	0.3	0.3
ROAE (%)	11.2	10.8	10.5	10.3
ROAE (ex-exceptional) (%)	11.2	10.8	10.5	10.3
ROA (%)	0.81	0.77	0.76	0.74
Earnings Rev (%)		New	New	New
Consensus EPS (RMB)		0.73	0.77	0.83
Other Broker Recs:		B:21	S:0	H:3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters



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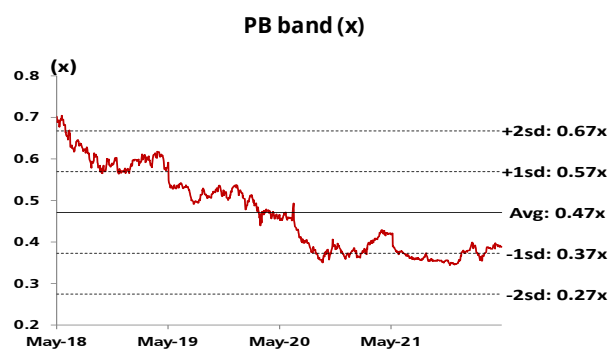
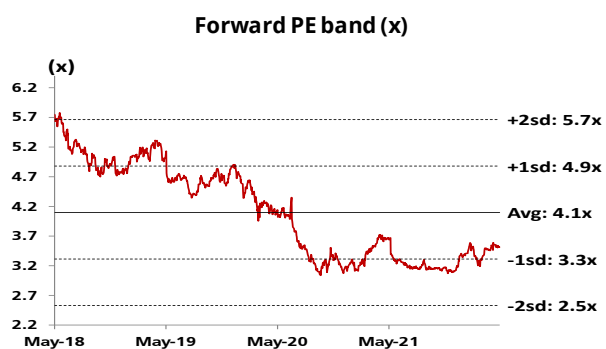


Bank of China

Company Background

Established in 1912, BOC served as the country's central bank, international exchange bank, and specialised international trade bank from inception to 1949. Due to its positioning as a specialised foreign exchange and trade bank, BOC became responsible for managing China's foreign exchange operations and provided vital support to China's foreign trade development and economic infrastructure. In 1994, BOC was transformed into a wholly state-owned commercial bank. It was dual listed on HKEX and SSE in 2006. As at 2021, BOC operated 11,452 outlets, of which 10,902 were in mainland China.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Bank of China

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
NIM (%)	1.85	1.75	1.72	1.73	1.74
Loan growth (%)	9	11	10	10	10
Fee growth (%)	(16)	8	3	6	6
Cost-to-income (%)	35.7	37.4	37.8	38.4	39.4
Credit cost (%)	0.87	0.70	0.75	0.77	0.79
Customer Deposits Growth (%)	7	8	8	8	7
Yld. On Earnings Assets (%)	3.40	3.25	3.16	3.16	3.20
Avg Cost Of Funds (%)	1.66	1.63	1.64	1.66	1.68

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Interest Income	415,918	425,142	451,991	489,065	530,948
Non-Interest Income	151,729	180,575	202,560	219,640	240,622
Operating Income	567,647	605,717	654,551	708,705	771,570
Operating Expenses	(202,411)	(226,355)	(247,159)	(272,246)	(303,910)
Pre-provision Profit	365,236	379,362	407,393	436,459	467,661
Provisions	(119,016)	(104,220)	(123,547)	(139,494)	(156,945)
Associates	158	1,478	1,525	1,595	1,669
Exceptionals	0	0	0	0	0
Pre-tax Profit	246,378	276,620	285,371	298,560	312,385
Taxation	(41,282)	(49,281)	(50,840)	(53,190)	(55,653)
Minority Interests	(12,226)	(10,780)	(11,121)	(11,635)	(12,174)
Preference Dividend	(12,029)	(10,651)	(10,651)	(10,651)	(10,651)
Net Profit	180,841	205,908	212,759	223,085	233,908
Net Profit bef Except	180,841	205,908	212,759	223,085	233,908

Growth (%)

Net Interest Income Gth	11.13	2.22	6.32	8.20	8.56
Net Profit Gth	0.15	13.86	3.33	4.85	4.85

Margins, Costs & Efficiency (%)

Spread	1.74	1.63	1.52	1.51	1.52
Net Interest Margin	1.86	1.75	1.71	1.72	1.74
Cost-to-Income Ratio	35.7	37.4	37.8	38.4	39.4

Business Mix (%)

Net Int. Inc / Opg Inc.	73.3	70.2	69.1	69.0	68.8
Non-Int. Inc / Opg inc.	26.7	29.8	30.9	31.0	31.2
Fee Inc / Opg Income	13.3	13.4	12.8	12.5	12.2
Oth Non-Int Inc/Opg Inc	13.4	16.4	18.2	18.5	19.0

Profitability (%)

ROAE Pre Ex.	10.6	11.2	10.8	10.5	10.3
ROAE	10.6	11.2	10.8	10.5	10.3
ROA Pre Ex.	0.9	0.9	0.9	0.8	0.8
ROA	0.8	0.8	0.8	0.8	0.7

Source: Company, DBS HK

Bank of China

Balance Sheet (RMB m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Cash/Bank Balance	2,076,840	2,228,726	2,395,880	2,575,571	2,761,013
Government Securities	0	0	0	0	0
Inter Bank Assets	1,742,465	1,902,229	1,959,296	2,057,261	2,160,124
Total Net Loans & Advs.	13,848,304	15,322,484	16,842,842	18,487,234	20,242,812
Investment	5,086,568	5,603,029	5,771,120	5,886,542	5,886,542
Associates	33,508	35,769	35,769	35,769	35,769
Fixed Assets	270,654	265,645	260,729	255,903	251,167
Goodwill	40,994	39,732	39,732	39,732	39,732
Other Assets	1,303,326	1,324,794	1,125,136	1,139,926	1,233,423
Total Assets	24,402,659	26,722,408	28,430,504	30,477,939	32,610,582
Customer Deposits	16,673,025	17,982,468	19,331,153	20,780,990	22,277,221
Inter Bank Deposits	3,216,763	4,046,063	4,450,669	4,717,709	5,000,772
Debts/Borrowings	1,244,403	1,388,678	1,109,481	1,219,484	1,340,440
Others	1,105,631	954,646	1,013,297	1,075,606	1,141,790
Minorities	124,418	125,400	130,306	135,528	140,994
Shareholders' Funds	2,038,419	2,225,153	2,395,599	2,548,622	2,709,365
Total Liab& S/H's Funds	24,402,659	26,722,408	28,430,504	30,477,939	32,610,582

Source: Company, DBS HK

Financial Stability Measures (%)

FY Dec	2020A	2021A	2022F	2023F	2024F
Balance Sheet Structure					
Loan-to-Deposit Ratio	85.3	87.2	89.3	91.2	93.2
Net Loans / Total Assets	56.7	57.3	59.2	60.7	62.1
Investment / Total Assets	20.8	21.0	20.3	19.3	18.1
Cust. Dep./Int. Bear. Liab.	78.9	77.5	76.7	77.1	76.8
Interbank Dep / Int. Bear.	15.7	16.7	18.1	18.4	18.5
Asset Quality					
NPL / Total Gross Loans	1.5	1.3	1.3	1.3	1.3
NPL / Total Assets	0.8	0.8	0.8	0.8	0.8
Loan Loss Reserve Coverage	177.2	168.8	186.1	190.0	192.4
Provision Charge-Off Rate	0.8	0.7	0.7	0.7	0.8
Capital Strength					
Total CAR	16.2	16.5	17.3	17.1	16.8
Tier-1 CAR	11.3	11.3	11.8	11.8	11.9

Source: Company, DBS HK

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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